

## Message Text

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 7159

INFO AMCONSUL MONTREAL UNN

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EO 11652 NA

TAGS OVIP (KISSINGER, HENRY A.), CA

SUBJ SECRETARY'S VISIT TO MONTREAL

REFS A) STATE 179550; B) STATE 179449

1. REFTEL B REQUESTED QUESTIONS AND ANSWERS FOR POSSIBLE PRESS CONFERENCE; EMBASSY UNDERSTANDS PRESS CONFERENCE IS NO LONGER SCHEDULED AND AS A RESULT HAS REFORMULATED ITS SUBMISSION AS TALKING POINTS UNDER FOLLOWING POLITICAL AND ECONOMIC HEADINGS:

2. POLITICAL

A. YOUR PLANS TO VISIT OTTAWA. BACKGROUND: CANADIANS HAVE NOTED IN THE PRESS AND OTHERWISE THE CANCELLATION OF YOUR PROPOSED EARLIER VISITS. ATTENTION TO THE SUBJECT WILL PRESUMABLY BE ALL THE GREATER DURING YOUR VISIT TO MONTREAL WHICH DOES NOT INCLUDE OTTAWA IN THE ITINERARY.

IF ASKED REGARDING YOUR PLANS TO VISIT OTTAWA YOU MIGHT WISH TO SAY: I HAVE BEEN IN TOUCH WITH THE CANADIAN SECRETARY OF STATE FOR EXTERNAL AFFAIRS, ALLAN MACEACHEN, IN AN EFFORT TO ARRANGE AN EARLY DATE. I AM LOOKING FORWARD TO THE VISIT AND RENEWING MY TALKS WITH MR. MACEACHEN. WE ARE TRYING TO WORK OUT A MUTUALLY AGREEABLE TIME. THE PRESS OF BUSINESS WHICH HAS CAUSED EARLIER CANCELLATIONS HAS CERTAINLY NOT PREVENTED US FROM A VERY CLOSE AND FRUITFUL DIALOGUE. WE MET IN WASHINGTON AT THE END OF MARCH AND IN MAY AT THE NATO MINISTERIAL MEETINGS

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IN EUROPE.

B. THE DEPLETION OF FISHERIES RESOURCES AND THE EXTENSION OF JURISDICTION TO A 200-MILE OFFSHORE ECONOMIC ZONE. BACKGROUND: CANADA'S EAST COAST FISHERIES HAVE BEEN SERIOUSLY DEPLETED BY FOREIGN (PRIMARILY SOVIET) FISHING VESSELS. THERE IS CONSIDERABLE PRESSURE TO HAVE CANADA EXTEND UNILATERALLY ITS JURISDICTION TO 200 MILES TO DRAMATIZE ITS CONCERN ABOUT ALLEGED SOVIET VIOLATIONS OF QUOTA LIMITS ESTABLISHED BY THE ICNAF (INTERNATIONAL COMMISSION FOR THE NORTHWEST ATLANTIC FISHERIES), CANADA CLOSED ITS ATLANTIC PORTS TO SOVIET FISHING VESSELS EFFECTIVE JULY 28. CANADA SO FAR IS RESISTING EFFORTS TO EXTEND ITS JURISDICTION SINCE IT WOULD PREFER SUCH ACTION TO BE TAKEN BY THE LOS CONFERENCE.

IF ASKED WHETHER THE US INTENDS TO EXTEND ITS JURISDICTION UNILATERALLY TO 200 MILES OFFSHORE OR TO CLOSE ATLANTIC PORTS TO THE SOVIET FISHING FLEET YOU MIGHT WISH TO REPLY WE WOULD PREFER TO SEE INTERNATIONAL ACTION UNDERTAKEN WITHIN THE CONTEXT OF THE LAW OF THE SEA CONFERENCE. THE ADMINISTRATION OPPOSES EFFORTS IN THE US CONGRESS TO EXTEND OUR JURISDICTION UNILATERALLY AND IN ANY EVENT WE HAVE MANAGED TO KEEP ANY PROBLEMS WITH THE SOVIET FISHING FLEET TO A MINIMUM THROUGH A COMBINATION OF EFFECTIVE SURVEILLANCE AND ENFORCEMENT PROCEDURES AND FIRM BILATERAL UNDERSTANDINGS WITH THE SOVIET UNION.

C. GARRISON DIVERSION PROJECT. BACKGROUND: THE US BUREAU OF RECLAMATION IS BUILDING THE HUGE GARRISON DIVERSION IRRIGATION PROJECT IN NORTH DAKOTA. IF COMPLETED AS ORIGINALLY CONCEIVED, THE PROJECT WOULD CONSIDERABLY ALTER THE QUALITY OF THE WATER FLOWING ACROSS THE BORDER. WE HAVE PLEDGED TO ABIDE BY THE 1909 BOUNDARY WATERS TREATY WHICH PROHIBITS TRANS BOUNDARY POLLUTION DAMAGING TO HEALTH OR PROPERTY. IF ASKED WHY DOES THE US PROCEED WITH THE GARRISON DIVERSION PROJECT YOU MAY WISH TO REPLY THAT THE GARRISON DIVERSION PROJECT HAS BEEN APPROVED BY THE US GOVERNMENT AND HAS BEEN FUNDED BY THE US CONGRESS. WE HAVE GIVEN CANADA OUR ASSURANCES THAT WE WILL ABIDE BY OUR TREATY OBLIGATIONS NOT TO POLLUTE CANADIAN WATERS AND TO OBSERVE THE 1909 BOUNDARY WATERS TREATY. WE ARE WORKING WITH THE CANADIAN GOVERNMENT TO REFER THE TRANS-BOUNDARY PROBLEM TO THE INTERNATIONAL JOINT COMMISSION LIMITED OFFICIAL USE

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FOR STUDY.

D. CIA ACTIVITIES IN CANADA. BACKGROUND: CHARGES OF CIA INVOLVEMENT IN DOMESTIC CANADIAN MATTERS ARE RAISED PERIODICALLY. ON JULY 30, FOR EXAMPLE, THE MEDIA GAVE PROMINENT COVERAGE TO THE REPORTED CHARGE OF BRITISH COLUMBIA RESOURCES MINISTER, ROBERT WILLIAMS, THAT THE CIA HAD BEEN ATTEMPTING TO SUBVERT BRITISH COLUMBIA'S NEW DEMOCRATIC PARTY (SOCIALIST) GOVERNMENT.

IF ASKED YOU MAY WISH TO REPLY THE US GOVERNMENT CONDUCTS NO INTELLIGENCE OPERATIONS IN CANADA. NORMAL LIAISON IS MAINTAINED BETWEEN THE US AND CANADIAN INTELLIGENCE COMMUNITIES.

E. QUEBEC INDEPENDENCE. BACKGROUND: THE PARTI QUEBECOIS (SEPARATIST) ADHERENTS WON 30 PERCENT OF THE POPULAR VOTE IN THE LAST PROVINCIAL ELECTION (OCT 1973). ALTHOUGH THIS RESULTED IN ONLY SIX SEATS IN THE NATIONAL ASSEMBLY THEY HAVE SINCE REORGANIZED AT GRASS-ROOTS LEVEL IN EFFORT OVERCOME THIS DISABILITY IN NEXT ELECTION. IT IS THOUGHT IN SOME QUARTERS THAT THEY COULD BECOME THE MAJORITY PARTY IN 1980.

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IF ASKED WHAT IS THE POSITION OF THE US GOVERNMENT RE QUEBEC BECOMING AN INDEPENDENT COUNTRY, YOU MIGHT WISH TO REPLY THAT THIS IS A DOMESTIC MATTER INAPPROPRIATE FOR AN OUTSIDER'S COMMENT. THE USG MAINTAINS CLOSE AND FRIENDLY RELATIONS WITH CANADA.

F. EASTPORT REFINERY. BACKGROUND: THE PITTSTON COMPANY HOPES TO BUILD A 250,000 BARREL-A-DAY REFINERY IN EASTPORT, MAINE. SUPER-TANKERS DESTINED FOR THE REFINERY WOULD HAVE TO PASS THROUGH CANADIAN WATERS AND CANADA HAS INDICATED IT HAS NO INTENTION OF ALLOWING SUCH TRAFFIC. THE CANADIAN POSITION RAISES COMPLEX LEGAL ISSUES REGARDING RIGHT OF INNOCENT PASSAGE THROUGH CERTAIN STRAITS. PITTSTON'S APPLICATION COULD BECOME A MAJOR ISSUE BETWEEN THE TWO COUNTRIES.

IF ASKED YOU MIGHT WISH TO REPLY THE US FEDERAL GOVERNMENT HAS NOT YET TAKEN AN OFFICIAL POSITION ON THE PROJECT SINCE

THE PITTSTON COMPANY HAS NOT COMPLETED ALL OF ITS FORMAL APPLICATION PROCEDURES. THE STATE OF MAINE ENVIRONMENTAL BOARD CONCLUDED AFTER TWO AND ONE-HALF YEARS OF STUDY THAT THE PROJECT COULD BE UNDERTAKEN WITH MINIMAL ENVIRONMENTAL RISK; IT ALSO SAID THE PITTSTON COMPANY WOULD NEED TO SEEK CANADIAN CONCURRENCE.

G. CANADA'S DEFENSE POSTURE. BACKGROUND; CANADA HAS BEEN CONSIDERING ALTERING ITS CONTRIBUTION TO NATO. NATO ALLIES, PARTICULARLY GERMANY AND THE US, WEIGHED IN STRONGLY AGAINST SUCH MOVES AND CANADA AGREED TO CONSULT WITH US AS IT PROCEEDS LIMITED OFFICIAL USE

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WITH ITS DEFENSE REVIEW. CANADA IS ALREADY THE SECOND SMALLEST (AFTER LUXEMBOURG) CONTRIBUTOR TO NATO IN TERMS OF PERCENT OF GNP. IN GENERAL, ITS DEFENSE FORCES HAVE INCREASINGLY OBSOLETE EQUIPMENT AS THE GOC REMAINS RELUCTANT TO SPEND MONEY ON ITS MILITARY ESTABLISHMENT.

IF ASKED YOU MAY WISH TO REPLY THAT YOU UNDERSTAND THAT CANADA IS CURRENTLY UNDERTAKING A DEFENSE REVIEW AND HAS AGREED TO CONSULTATIONS WITH US ON THE SUBJECT. WE HAVE ALREADY EXPRESSED OUR VIEWS ABOUT ANY DIMINUTION OF CANADA'S CONTRIBUTION TO NATO AND HAVE BEEN REASSURED THAT CANADA WILL CONTINUE TO PROVIDE NATO WITH A FULL COMPLEMENT OF WELL EQUIPPED FORCES.

H. 1976 OLYMPICS. BACKGROUND: MONTREAL WILL HOST THE 1976 OLYMPICS.

IF ASKED WHETHER YOU AND/OR PRESIDENT FORD PLAN TO COME TO THE OLYMPICS, YOU MIGHT WISH TO REPLY THAT YOU ARE SURE IF IT IS POSSIBLE THAT HE AND YOU WOULD WELCOME THE OPPORTUNITY. IF ASKED THE FOLLOW UP QUESTION WHETHER YOU ANTICIPATE ANY PROBLEM SUCH AS OCCURRED IN MUNICH, YOU MIGHT WISH TO REPLY NO. YOU ARE SURE THE CANADIAN SECURITY FORCES WILL TAKE ALL NECESSARY PRECAUTIONS.

I. CANADA'S REQUEST TO POSTPONE THE UN CONFERENCE ON CRIME.

BACKGROUND: CANADA WAS TO HOST THE FORTHCOMING UN CONFERENCE ON CRIME BUT DECIDED TO REQUEST POSTPONEMENT ON THE GROUNDS THAT THE CONGRESS COULD NOT BE HELD SUCCESSFULLY ANYWHERE THIS YEAR (THE PLO PLANNED TO SEND OBSERVERS TO THE CONGRESS). CANADA DECIDED TO REQUEST POSTPONEMENT OF THE CONFERENCE AFTER RECEIVING STRONG PRESSURE FROM THE DOMESTIC JEWISH LOBBY. THE UN HAS TURNED DOWN CANADA'S REQUEST AND WILL HOLD THE CONFERENCE IN GENEVA.

IF ASKED WHETHER YOU THINK CANADA WAS CORRECT IN ITS ACTION, YOU MAY WISH TO SAY THAT YOU UNDERSTOOD CANADA'S MOTIVATIONS

SINCE THEY WERE CONSISTENT WITH MANY OF YOUR OWN THOUGHTS  
EXPRESSED IN YOUR RECENT SPEECH IN MILWAUKEE.

J. FORMER VIETNAMESE GENERAL QUANG. BACKGROUND: GENERAL  
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QUANG IS A VIETNAMESE REFUGEE WITH MANY ALLEGATIONS OF CORRUPTION AGAINST HIM. SINCE THE CANADIAN IMMIGRATION AUTHORITIES HAVE FLATLY TURNED DOWN GENERAL QUAN'S REQUEST FOR IMMIGRANT STATUS IN CANADA, THE MEDIA IS PARTICULARLY INTERESTED IN WHERE GENERAL QUANG WILL EVENTUALLY SETTLE. THEY KEEP A VERY CLOSE EYE ON THE US IN THIS REGARD, AND THE SUGGESTED ANSWER REFLECTS THE RESPONSE GIVEN TO INQUIRERS BY THE CONSULATE GENERAL IN MONTREAL AND BY EMBASSY OTTAWA.

IF ASKED YOU MAY WISH TO REPLY THAT YOU CANNOT GIVE A DEFINITE ANSWER TO THAT QUESTION. SINCE GENERAL QUANG'S LETTER FOR ADMISSION TO THE UNITED STATES IS PRESENTLY UNDER STUDY AND SINCE HE HAS NOT, AS YET, FILED A FORMAL APPLICATION FOR ADMISSION, IT WOULD NOT BE PROPER FOR YOU TO COMMENT ON THE MATTER NOW.

ALTERNATIVELY WE WOULD RECOMMEND THAT YOU STATE THAT THE GENERAL QUANG ISSUE HAS NOT COME TO YOUR ATTENTION.

3. OTHER ISSUES MAY BE RAISED SUCH AS THE SECRETARY'S VIEWS ON INCREASED INSTITUTIONALIZATION OF US-CANADIAN RELATIONS, GREAT LAKES CLEAN-UP, RICHELIEU-CHAMPLAIN REFERENCE TO IJC, ETC. EMBASSY RECOMMENDS THAT SECRETARY GENERALLY REPLY TO SUCH INQUIRIES THAT THESE ITEMS HAVE NOT YET COME TO HIS ATTENTION.

D4. ECONOMIC

A. MAN AND HIS WORLD. BACKGROUND: MONTREAL'S ANNUAL INTERNATIONAL FAIR, MAN AND HIS WORLD (MHW) -- TERRE DES HOMMES IN FRENCH -- ON THE SITE OF EXPO 67, IS A PET PROJECT OF MAYOR DRAPEAU. THE USG STOPPED PARTICIPATING AFTER 1972, WHICH HAS RANKLED CITY HALL CONSIDERABLY. MHW PLANNED TO MAKE "SALUTE TO THE US" THE 1975 THEME UNTIL WE AGAIN DECLINED TO JOIN IN. THE U.S. TRAVEL SERVICE (USTS) SEEMS UNALTERABLY OPPOSED TO INVESTING ITS BUDGET IN THIS ENTERPRISE, BUT CITY AUTHORITIES CONTINUE TO HOPE THAT THEY MAY BE ABLE TO PERSUADE SOMEONE IN THE USG TO TAKE A NEW LOOK AT THE IDEA.

IF ASKED WHY THE U.S. DOESN'T PARTICIPATE IN MAN AND HIS WORLD, YOU MIGHT WISH TO SAY: OUR PARTICIPATION IN SUCH EXHIBITIONS  
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IS DESIGNED TO INCREASE TOURISM TO THE UNITED STATES. DURING THE FEW YEARS AFTER EXPO 67 THAT WE DID EXHIBIT IN MONTREAL WE FOUND THAT THE MAJORITY OF THE VISITORS TO OUR EXHIBIT WERE UNITED STATES CITIZENS.

B. CANADIAN OIL EXPORTS. BACKGROUND: THE U.S. IN THE PAST HAD CONSIDERED CANADA TO BE ONE OF ITS MOST DEPENDABLE AND SECURE SOURCES OF OIL SUPPLY.

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A CANADIAN NATIONAL ENERGY BOARD REPORT (DATED OCTOBER 1974) REVEALED THAT RESERVES WERE RAPIDLY DECLINING AND REQUIRED A RELATIVELY FAST PHASE-OUT OF EXPORTS TO THE U.S. BY 1983. THIS POSES SPECIAL PROBLEMS FOR ANUMBER OF REFINERIES IN THE "NORTHERN TIER" STATES WHICH WERE BUILT TO PROCESS CANADIAN CRUDE AND WHICH HAVE NO ALTERNATIVE SOURCES OF SUPPLY. OUR TWO GOVERNMENTS IN RECENT WEEKS, AFTER EXTENSIVE CONSULTATIONS, HAVE AGREED TO FACILITATE OIL EXCHANGE ARRANGEMENTS BETWEEN REFINERIES ON BOTH SIDES OF THE BORDER TO REDUCE SUPPLY AND TRANSPORTATION COSTS AND OTHER DIFFICULTIES, THUS HELPING CONSUMERS IN BOTH COUNTRIES. IT IS NOT YET CLEAR WHETHER COMPANIES WILL FIND ANY SWITCHING POSSIBILITIES ECONOMICALLY ATTRACTIVE.

IF ASKED ABOUT U.S. REACTION TO THE GOC'S DECISION

TO PHASE OUT OIL EXPORTS TO THE U.S. YOU MIGHT WISH TO SAY: WE REGRET THAT CANADIAN EXPLORATION AND DEVELOPMENT ACTIVITIES IN RECENT YEARS HAVE NOT SIGNIFICANTLY IMPROVED CANADA'S DECLINING RESERVE POSITION. CANADIAN EXPORT REDUCTIONS WILL ULTIMATELY HAVE A MAJOR IMPACT ON CERTAIN U.S. REFINERIES WHICH ARE DEPENDENT ON CANADIAN SOURCES OF SUPPLY. WE APPRECIATE THE CANADIAN GOVERNMENT'S RECOGNITION OF THE PROBLEMS FACING THESE SPECIFIC U.S. REFINERIES AND HOPE THAT A PHASE-OUT CAN BE ARRANGED SO AS TO MINIMIZE THE ECONOMIC IMPACT. LIMITED OFFICIAL USE

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C. OIL EXPORT CHARGE: BACKGROUND: UNTIL JULY 1, CANADA MAINTAINED, BY AGREEMENT WITH THE PROVINCES, A FROZEN OIL WELL-HEAD PRICE OF \$6.50 PER BARREL. ON EXPORT BARRELS, A TAX WAS ADDED OSTENSIBLY TO EQUALIZE THE PRICE OF CANADIAN CRUDE IN CHICAGO WITH OTHER OFF-SHORE OIL. FOR MOST OF THE PAST YEAR, THE LEVEL OF THE TAX WAS \$5.50 PER BARREL, BRINGING THE LANDED COST IN CHICAGO TO CLOSE TO \$13.00 A BARREL, A PRICE AMONGST THE HIGHEST IN THE WORLD. FOR PRICE REASONS, EXPORTS FELL WELL BELOW AUTHORIZED LEVELS; 30 CENTS WAS SHAVED OFF THE TAX IN JUNE AND VOLUME PICKED UP. EFFECTIVE JULY 1, CANADA RAISED THE WELL-HEAD PRICE BY \$1.50 PER BARREL TO \$8.00 PER BARREL AND THE EXPORT TAX WAS REDUCED ACCORDINGLY, I.E., BY \$1.50 PER BARREL. PROCEEDS FROM THE EXPORT TAX HAVE BEEN USED BY THE GOC TO SUBSIDIZE EASTERN CANADIAN CONSUMERS TO THE EXTENT THAT THEIR IMPORTED OIL COSTS EXCEEDED DOMESTIC OIL PRICES. U.S. CRITICS, INCLUDING SOME IN CONGRESS, HAVE SUGGESTED THAT IN IMPOSING THE TAX THE CANADIANS ARE ACTING LIKE "BLUE-EYED ARABS."

IF ASKED ABOUT THE EXPORT TAX YOU MIGHT WISH TO SAY: THE EXPORT TAX AND THE CANADIAN SUBSIDY PROGRAM FOR ITS IMPORT-DEPENDENT CONSUMERS ON THE CANADIAN EAST COAST HAVE CREATED PROBLEMS FOR THE U.S. WHILE WE FULLY UNDERSTAND THE CANADIAN RATIONALE FOR THE TAX, WE ARE CONCERNED THAT THE SYSTEM RESULTS IN U.S. CONSUMERS FINANCING CANADIAN ENERGY CONSUMPTION. WE ARE ALSO CONCERNED ABOUT THE TRADE DISTORTIONS LIKELY TO DEVELOP IF CANADA OVER THE LONG RUN MAINTAINS ARTIFICIALLY LOWER PRICES FOR OIL. FROM THIS VIEWPOINT, WE WELCOMED THE GOVERNMENT'S DECISION TO MOVE TOWARDS WORLD OIL PRICE LEVELS AS OF JULY 1.

D. CANADIAN NATURAL GAS. BACKGROUND: A CANADIAN

NATIONAL ENERGY BOARD REPORT MADE PUBLIC ON JULY 16  
PAINTS A VERY GLOOMY PICTURE OF CANADIAN GAS RESERVES.  
DELIVERABILITY SHORTFALLS ARE PREDICTED WITHIN THE  
NEXT SEVERAL YEARS. THIS WILL PROBABLY REQUIRE A  
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CURTAILMENT OF NATURAL GAS EXPORTS TO THE U.S.  
UNLIKE THE SITUATION WITH REGARD TO OIL EXPORTS,  
THE GOC IS CAREFULLY PREPARING THE GROUND FOR  
CONSULTATIONS WITH THE U.S. ON GAS SUPPLIES AND THERE  
IS SOME HOPE THAT CURTAILMENTS WILL BE SHARED ON  
BOTH SIDES OF THE BORDER. ON PRICE, EXPORT GAS  
WENT FROM \$1.00 PER MCF TO \$1.40 ON AUGUST 1 AND  
WILL GO UP AGAIN ON NOVEMBER 1 TO \$1.60 PER MCF  
AT THE BORDER. (ONLY TWO YEARS AGO EXPORT  
PRICES WERE APPROXIMATELY 35 CENTS PER MCF.)  
GAS PRICES TO CANADIAN CUSTOMERS ARE FAR BELOW  
EXPORT PRICES. GOC POLICY CALLS FOR STAGED  
INCREASES WHICH WILL EVENTUALLY BRING BOTH DOMESTIC  
AND EXPORT GAS TO ABOUT \$2.00 PER MCF (CONSIDERED  
THE EQUIVALENCY WITH OIL ON A B.T.U. BASIS).  
HOWEVER, THE STAGED INCREASES FOR DOMESTIC CONSUMERS  
WILL BE PHASED IN MORE GRADUALLY THAN FOR  
EXPORT CUSTOMERS.

IF ASKED ABOUT THE U.S. REACTION TO THE NEB GAS  
SUPPLY REPORT YOU MIGHT WISH TO SAY: WE REGRET  
THAT THE BOARD HAS FOUND THAT CANADIAN SUPPLIES  
ARE LESS THAN ANTICIPATED. WE APPRECIATE THE  
CANADIAN GOVERNMENT'S INTENTION TO CONSULT FULLY  
WITH US ON THE NATURAL GAS SUPPLY SITUATION BEFORE  
FINAL POLICY DECISIONS ARE TAKEN. WE HOPE THAT  
ANY SHORTFALLS IN SUPPLY WILL NOT FALL SOLELY ON  
THE U.S., YOUR ONLY EXPORT CUSTOMER. WE ARE  
ENCOURAGED BY ENERGY MINISTER MACDONALD'S RECENT  
STATEMENT THAT CANADA EXPECTS TO MEET ITS FULL

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EXPORT COMMITMENTS FOR NATURAL GAS TO THE U.S.  
IN THE COMING WINTER SEASON.

IF ASKED ABOUT GAS PRICE POLICY YOU MIGHT WISH TO SAY: WE  
CONTINUE TO BE DISTURBED OVER THE INEQUITIES OF A TWO-PRICE  
SYSTEM: ONE FOR LONG-STANDING EXPORT CUSTOMERS AND A SIGNI-  
FICANTLY LOWER PRICE FOR DOMESTIC CONSUMERS.

E. MACKENZIE VALLEY NATURAL GAS PIPELINE.

BACKGROUND: A CONSORTIUM OF U.S. AND CANADIAN COMPANIES  
PROPOSES TO BUILD A NATURAL GAS PIPELINE THROUGH THE MACKENZIE  
VALLEY TO TRANSPORT ALASKAN GAS TO THE U.S. MARKET. THE  
PROPOSAL IS IN DIRECT COMPETITION WITH THE ALL-U.S. PROJECT  
BEING PROMOTED BY EL PASO NATURAL GAS CO. TO BRING THE GAS  
TO THE U.S. WEST COAST VIA TANKER FROM VALDEZ, ALASKA. THE  
EL PASO PROJECT PROPONENTS ARGUE AGAINST THE MACKENZIE PRO-  
POSAL BY RAISING DOUBTS AS TO WHETHER CANADA CAN BE RELIED ON  
NOT TO INTERFERE WITH THROUGHPUT. IN CANADA THERE IS ALSO A  
COMPETING FOOTHILLS PROPOSAL (MAPLE LEAF PROJECT) TO TRANSPORT  
CANADIAN ARCTIC GAS TO CANADIAN CONSUMERS ONLY.

IF ASKED FOR YOUR VIEW ON THE MACKENZIE VALLEY NATURAL GAS  
PIPELINE PROJECT YOU MIGHT WISH TO SAY: THE PROPOSAL IS BEFORE  
THE APPROPRIATE REGULATORY BODIES IN BOTH COUNTRIES, ALONG WITH  
PROPOSALS FOR COMPETING PROJECTS. IT WOULD, THEREFORE, BE  
INAPPROPRIATE FOR ME TO COMMENT ON THEIR RESPECTIVE MERITS UNTIL  
SUCH TIME AS THE REGULATORY BODIES MAKE THEIR RECOMMENDATIONS  
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TO GOVERNMENTS.

F. U.S. - CANADA PIPELINE TREATY. BACKGROUND: A PIPELINE  
TREATY BETWEEN CANADA AND THE U.S. WOULD PROVIDE BOTH COUNTRIES  
WITH ASSURANCES THAT TRANSIT OIL, GAS, AND PRODUCT THROUGHPUTS  
WOULD NOT BE SUBJECT TO ARBITRARY AND DISCRIMINATORY TREATMENT  
BY EITHER GOVERNMENT OR THEIR POLITICAL SUBDIVISIONS. SUCH  
AN AGREEMENT IS PARTICULARLY IMPORTANT IN THE CONTEXT OF SUCH

LARGE POTENTIAL PROJECTS AS THE MACKENZIE VALLEY GAS PIPELINE WHICH HAS BEEN PROPOSED TO TRANSPORT ALASKAN GAS THROUGH CANADA TO U.S. MARKETS. CANADA IS ALSO INTERESTED IN PROTECTING ITS PORTLAND, MAINE PIPELINE FROM POSSIBLE RETALIATORY ACTIONS BY THE U.S.

IF ASKED ABOUT THE STATUS OF THE U.S. - CANADA PIPELINE TREATY NEGOTIATIONS YOU MIGHT WISH TO SAY: OFFICIALS OF BOTH GOVERNMENTS HAVE MET SEVERAL TIMES DURING THE PAST YEAR TO DISCUSS THE MODALITIES OF A POSSIBLE PIPELINE TREATY AND CONSIDERABLE PROGRESS HAS BEEN MADE IN PRODUCING A DRAFT AGREEMENT. THE TEXT IS NOW THE SUBJECT OF ON-GOING CONSULTATIONS WITHIN EACH GOVERNMENT AND A FURTHER MEETING IS ENVISAGED WITHIN A SHORT TIME TO CONTINUE THE NEGOTIATIONS.

G. FRENCH PROPOSAL FOR URANIUM ENRICHMENT PLANT IN QUEBEC. BACKGROUND: QUEBEC AND FRANCE ARE CONSIDERING THE CONSTRUCTION OF A URANIUM ENRICHMENT PLANT IN QUEBEC. THE FEDERAL GOVERNMENT HAS TAKEN A CAUTIOUS AND SOMEWHAT NEGATIVE ATTITUDE, AT LEAST PENDING FURTHER STUDY. THE MATTER IS A SENSITIVE ONE DOMESTICALLY.

IF ASKED FOR U.S. VIEWS ON THE FRENCH PROPOSAL, YOU MIGHT WISH TO SAY: WE CONSIDER THIS TO BE A MATTER TO BE DECIDED BY CANADA AND QUEBEC. WE IN THE U.S. ANTICIPATE A GREATLY INCREASED DEMAND FOR ENRICHED URANIUM BY THE END OF THIS CENTURY. THIS WILL REQUIRE THE CONSTRUCTION OF A NUMBER OF ADDITIONAL ENRICHMENT PLANTS. WE HAVE DECIDED TO INVOLVE THE PRIVATE SECTOR IN THIS FIELD.

H. CANDU NUCLEAR POWER REACTOR. BACKGROUND: THE U.S. ENERGY RESEARCH AND DEVELOPMENT AGENCY IS CURRENTLY DISCUSSING WITH ATOMIC ENERGY OF CANADA LIMITED (A CROWN CORPORATION) A JOINT LIMITED OFFICIAL USE

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REVIEW OF THE CANDU NUCLEAR POWER REACTOR (A HEAVY-WATER REACTOR DEVELOPED IN CANADA) TO SEE WHAT THE POSSIBILITIES MIGHT BE OF INTRODUCING CANDU REACTORS INTO THE U.S.

IF ASKED ABOUT THE ERDA/AECL DISCUSSIONS, YOU MIGHT WISH TO SAY: IN THESE DAYS OF ENERGY SHORTAGES WE ARE EXAMINING ALL POSSIBLE SOURCES OF SUPPLY. AS WE HAVE WORKED CLOSELY WITH CANADA ON DEVELOPMENT OF THE CANDU IT IS ONLY NATURAL THAT WE SHOULD LOOK CLOSELY AT THIS SOURCE.

I. AGRICULTURAL TRADE PROBLEMS; BACKGROUND: IN RECENT MONTHS THERE HAVE BEEN SEVERAL WELL-PUBLICIZED BILATERAL TRADE PROBLEMS ARISING IN LARGE PART FROM CANADA'S ATTEMPTS TO INSULATE ITS AGRICULTURAL MARKETS (BEEF, EGGS, TURKEYS) FROM FOREIGN COMPETITION. IN THE CASE OF CANADA'S RESTRICTIONS ON IMPORTS OF

BEEF AND CATTLE FROM THE U.S., THE USG RETALIATED BY RESTRICT-  
ING CANADIAN SALES OF MEAT AND LIVESTOCK TO THE U.S. SINCE  
THAT TIME THERE HAS BEEN BETTER CONSULTATION ABOUT THE ISSUES.  
THE TWO COUNTRIES ARE ABOUT TO UNDO SOME OF THE MEAT AND LIVE-  
STOCK RESTRICTIONS; EGG AND TURKEY QUOTAS REMAIN A BONE OF  
CONTENTION, HOWEVER. (NOTE: THESE ISSUES ARE UNDER ACTIVE  
CONSIDERATION. ITEM SHOULD BE UPDATED BEFORE AUGUST 11 TO TAKE  
ACCOUNT OF ANY NEW DEVELOPMENTS.)

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IF ASKED ABOUT U.S. VIEWS ON THESE TRADE ISSUES,  
YOU MIGHT WISH TO SAY: THE U.S. CANNOT STAND  
IDLY BY WHEN ITS TRADE INTERESTS ARE DAMAGED  
BY ACTIONS OF ANOTHER GOVERNMENT. WE BELIEVE,  
HOWEVER, THAT DIALOGUE AND CONSULTATION CAN DO  
MUCH TO INCREASE UNDERSTANDING AND MINIMIZE  
PROBLEMS. OFFICIALS OF THE TWO GOVERNMENTS HAVE  
BEEN MEETING REGULARLY IN RECENT WEEKS TO DISCUSS  
OUTSTANDING TRADE ISSUES AND WE ARE HOPEFUL THAT  
THEY WILL BE ABLE TO FIND MUTUALLY SATISFACTORY  
SOLUTIONS.

J. U.S.-CANADA AUTO PACT. BACKGROUND: UNDER THE  
1965 U.S.-CANADA AUTO AGREEMENT, WHICH CREATED A FREE  
TRADE AREA IN AUTOMOTIVE PRODUCTS, TWO-WAY TRADE  
INCREASED FROM ONLY ABOUT \$700 MILLION IN 1964 TO  
SOME \$12 BILLION IN 1974, REPRESENTING NEARLY ONE-  
QUARTER OF TOTAL TRADE BETWEEN THE U.S. AND CANADA.  
RECENTLY, DESPITE THE CONTINUED EXISTENCE OF SEVERAL  
"SPECIAL" PROVISIONS IN THE AGREEMENT WHICH WERE

INTENDED TO EASE CANADA'S TRANSITION INTO THE INTEGRATED NORTH AMERICAN AUTOMOTIVE MARKET, CANADA HAS EXPERIENCED AND HAS BECOME CONCERNED ABOUT A GROWING AUTOMOTIVE TRADE DEFICIT WITH THE U.S. WHICH REACHED \$1.2 BILLION IN 1974 AND MAY APPROACH \$2 BILLION IN 1975. (THE CANADIAN TRADE POSITION HAS UNDOUBTEDLY BEEN ADVERSELY AFFECTED BY THE ECONOMIC DOWN-TURN IN THE U.S.DURING THE PAST LIMITED OFFICIAL USE

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YEAR AND IT CAN BE EXPECTED TO IMPROVE SOMEWHAT AS OUR ECONOMIC RECOVERY GAINS MOMENTUM.) AT THE SAME TIME, BECAUSE OF THE DEPRESSED CONDITION OF THE U.S. AUTO INDUSTRY, PETITIONS HAVE RECENTLY BEEN FILED IN THE U.S. FOR ADJUSTMENT ASSISTANCE AND FOR ANTI-DUMPING INVESTIGATIONS INTO FOREIGN AUTO IMPORTS INCLUDING THOSE FROM CANADA. THE U.S. INTERNATIONAL TRADE COMMISSION, AT THE REQUEST OF THE SENATE FINANCE COMMITTEE, HAS STARTED AN INVESTIGATION INTO THE U.S.- CANADA AUTO AGREEMENT.

IF ASKED WHETHER OUR GOVERNMENTS ARE DISCUSSING OR NEGOTIATING CHANGES IN THE AGREEMENT YOU MIGHT WISH TO STATE: THERE ARE NO NEGOTIATIONS IN PROCESS ON THE AUTO PACT. IT WAS NEVER INTENDED THAT THE AGREEMENT WOULD RESULT IN A YEARLY BALANCE IN AUTOMOTIVE TRADE. THE AGREEMENT HAS SERVED BOTH COUNTRIES WELL BY EXPANDING TWO-WAY TRADE FROM \$700 MILLION IN 1964 TO SOME \$12 BILLION IN 1974.

IF ASKED ABOUT THE ANTI-DUMPING AND AUTO AGREEMENT INVESTIGATIONS, YOU MIGHT WISH TO SAY: WE MUST AWAIT THE RESULTS OF THOSE INVESTIGATIONS BY THE TREASURY DEPARTMENT IN CONNECTION WITH THE ANTI-DUMPING CHARGES, THE LABOR DEPARTMENT AS TO ADJUSTMENT ASSISTANCE, AND THE INTERNATIONAL TRADE COMMISSION REGARDING THE AUTO PACT ITSELF.

K. GOC SCREENING OF FOREIGN INVESTMENT. BACKGROUND: FOR OVER A YEAR THE GOC HAS BEEN SCREENING FOREIGN TAKEOVERS OF CANADIAN BUSINESSES TO ENSURE THAT THEY MEET THE "SIGNIFICANT BENEFIT TO CANADA" CRITERION OF THE 1973 FOREIGN INVESTMENT REVIEW ACT. ON JULY 18 THE GOC ANNOUNCED THAT BEGINNING OCTOBER 15, 1975, ALL NEW FOREIGN INVESTMENT AND THE EXPANSION OF EXISTING FOREIGN-CONTROLLED FIRMS INTO UNRELATED ACTIVITIES WOULD ALSO BE SCREENED.

IF ASKED ABOUT THE USG REACTION TO THE GOC POLICY OF SCREENING FOREIGN INVESTMENT IN CANADA, YOU MIGHT WISH

TO SAY: THE USG BELIEVES THAT GOVERNMENT IMPEDIMENTS  
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TO FOREIGN INVESTMENT SHOULD BE MINIMIZED; NEVERTHELESS,  
WE RECOGNIZE CANADA'S RIGHT TO ESTABLISH GUIDELINES  
FOR NEW INVESTMENT ON THE BASIS OF SIGNIFICANT BENEFIT  
TO CANADA. WE WOULD BE CONCERNED IF THE IMPLEMENTATION  
OF THE GUIDELINES RESULTED IN DISCRIMINATION AGAINST  
U.S. INVESTORS; HOWEVER, WE ASSUME THAT GOC DECISIONS ON  
NEW U.S. INVESTMENT IN CANADA WILL BE FAIR AND EQUITABLE.

1. QUEBEC PROVINCIAL REGULATIONS ON FOREIGN  
INVESTMENT. BACKGROUND: QUEBEC HAS LONG BEEN  
CONSIDERING THE POSSIBILITY OF IMPOSING CONTROLS ON  
FOREIGN INVESTMENT BUT HAS CLEARLY NOT SETTLED ON THE  
POSITION IT WILL TAKE. IT NEEDS AND WANTS FOREIGN  
INVESTMENT BUT ON ITS OWN TERMS. QUEBEC IS MOVING  
INCREASINGLY IN THE DIRECTION OF CULTURAL SOVEREIGNTY,  
A STILL LARGELY UNDEFINED CONCEPT, AND FINDS IT  
DIFFICULT AT TIMES TO DEFINE ITS ECONOMIC OBJECTIVES  
WITHOUT REFERENCE TO CULTURAL DIFFERENCES. IN GENERAL,  
QUEBEC WANTS INVESTORS WHO WILL INCREASE THE PRESENCE  
OF FRANCOPHONES AT MANAGEMENT LEVELS AND INTEGRATE  
MORE FULLY INTO THE QUEBEC ECONOMY AND CULTURE.

IF ASKED WHAT EFFECT PROVINCIAL CONTROLS WOULD HAVE  
ON U.S. INVESTMENT, YOU MIGHT WISH TO SAY: U.S. FIRMS  
OPERATING ABROAD ARE SUBJECT TO THE LAWS OF THE AREAS  
WHERE THEY ARE LOCATED. THE U.S. ASKS ONLY THAT  
THOSE LAWS NOT DISCRIMINATE AGAINST U.S. INDIVIDUALS  
OR FIRMS. THE DECISION WHETHER TO DO BUSINESS IN  
ANY AREA WHICH IMPOSES INVESTMENT CONTROLS MUST BE  
AN ECONOMIC ONE BY THE FIRMS CONCERNED. OBVIOUSLY WHEN  
INVESTMENT CAPITAL IS SCARCE, IT CAN BE SELECTIVE AND  
WILL SEEK OUT THE AREAS WHERE IT FINDS THE BEST  
WELCOME.

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M. QUEBEC'S OFFICIAL LANGUAGE ACT -BILL 22.

BACKGROUND: QUEBEC'S OFFICIAL LANGUAGE ACT, BILL 22, ENACTED IN JULY, 1974, MAKES FRENCH THE OFFICIAL LANGUAGE OF QUEBEC. IT GIVES THE GOVERNMENT SWEEPING POWERS TO IMPROVE THE POSITION OF THE FRENCH LANGUAGE IN EDUCATION, BUSINESS, AND ADMINISTRATION. EXCEPT FOR A FEW OF ITS PROVISIONS, THE FULL IMPORT OF BILL 22 WILL ONLY BECOME KNOWN AS THE REGULATIONS ARE ISSUED AND IMPLEMENTED. MOST OF THE REGULATIONS CONCERNING THE BUSINESS SECTOR HAVE YET TO BE ISSUED. U.S. BUSINESS HAS EXPRESSED CONCERN WITH THE ABSENCE OF REGULATIONS DEALING WITH PACKAGING AND LABELLING BECAUSE OF POSSIBLE CONFLICTS WITH FEDERAL CANADIAN LEGISLATION IN THIS AREA WHICH WILL BECOME EFFECTIVE SEPTEMBER 1.

IF ASKED FOR U.S. VIEWS WITH RESPECT TO BILL 22, YOU MIGHT WISH TO SAY: U.S. FIRMS OPERATING ABROAD ARE SUBJECT TO THE LAWS OF THE AREAS WHERE THEY ARE LOCATED AND THE U.S. GOVERNMENT ASKS ONLY THAT THOSE LAWS NOT DISCRIMINATE AGAINST U.S. INTERESTS. HOWEVER, U.S. FIRMS ARE CONCERNED ABOUT THE LACK OF CLEAR GUIDELINES AS TO HOW BILL 22 WILL AFFECT THE BUSINESS SECTOR. THEY HOPE THAT THE REGULATIONS IMPLEMENTING BILL 22 WILL BE ISSUED SOON.

N. PRATT AND WHITNEY STRIKE. BACKGROUND: PRODUCTION WORKERS AT PRATT AND WHITNEY CANADA (FORMERLY UNITED LIMITED OFFICIAL USE

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AIRCRAFT) HAVE BEEN ON STRIKE SINCE JANUARY 7, 1974. BOTH SIDES HAVE ADOPTED HARD BARGAINING POSITIONS AND THERE HAVE BEEN SEVERAL OUTBREAKS OF VIOLENCE. THE QUEBEC GOVERNMENT HAS BEEN RELUCTANT TO LEGISLATE AN END TO THE STRIKE. IT IS OFTEN SUGGESTED THAT THE U.S. SHOULD PUT PRESSURE ON THE U.S. PARENT COMPANY TO SETTLE WITH ITS WORKERS.

IF ASKED WHETHER THE USG PROPOSES TO TAKE ANY ACTION TO END THIS LABOR DISPUTE YOU MIGHT WISH TO SAY: WE REALIZE THAT LABOR PROBLEMS INVOLVING UNITED STATES MULTINATIONALS ARE OFTEN REGARDED AS INTERNATIONAL PROBLEMS. HOWEVER, IT IS THE U.S. POSITION THAT PRATT AND WHITNEY CANADA LTD. IS A CANADIAN CORPORATION OPERATING IN QUEBEC AND THAT AS SUCH IT IS SUBJECT TO THE LAWS OF CANADA AND OF THIS PROVINCE.

O. TIME/READER'S DIGEST - BORDER TV STATIONS. BACKGROUND: IN THE MID-SIXTIES THE GOC PASSED LEGISLATION UNDER WHICH CANADIANS COULD NOT CLAIM THE COST OF ADVERTISING IN FOREIGN MAGAZINES AND NEWSPAPERS AS A BUSINESS EXPENSE ON THEIR INCOME TAX RETURNS. TIME AND READER'S DIGEST, WHICH WERE PUBLISHING IN CANADA AT THE TIME, WERE EXEMPTED FROM THE RESTRICTION UNDER A "GRANDFATHER" CLAUSE. IT IS FREQUENTLY ALLEGED THAT THE EXEMPTION RESULTED FROM STRONG USG ARMTWISTING ON BEHALF OF THE LUCE INTERESTS. PARLIAMENT IS NOW CONSIDERING, AND IS EXPECTED TO PASS BEFORE THE END OF THE YEAR, LEGISLATION WHICH ELIMINATES THE EXEMPTION FOR TIME AND READER'S DIGEST (AND ALSO EXTENDS THE RESTRICTION TO ADVERTISING ON U.S. TV STATIONS). THIS WILL GREATLY INCREASE THE COST OF ADVERTISING IN TIME AND READER'S DIGEST. TIME THINKS IT COULD NOT CONTINUE TO PUBLISH ITS CANADIAN EDITION. BOTH MAGAZINES HAVE PREFERRED TO ARGUE THE CASE AS CANADIANS (THROUGH THEIR CANADIAN SUBSIDIARIES); NEITHER HAS ASKED THE USG TO INTERVENE. THE U.S. BORDER TV STATIONS ARE VERY CONCERNED ABOUT THE TAX QUESTION AND, MORE IMPORTANTLY, THE REQUIREMENT THAT THEIR COMMERCIALS BE DELETED WHEN THEIR SIGNALS ARE RELAYED BY CANADIAN CABLE TV SYSTEMS. THE USG HAS NOT YET FOUND AN EFFECTIVE WAY TO DEAL WITH THE LATTER LIMITED OFFICIAL USE

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PROBLEM.

IF ASKED WHETHER THE U.S. OBJECTS TO THE CANADIAN GOVERNMENT'S ATTEMPTS TO "FORCE" TIME AND READER'S DIGEST OUT OF CANADA, YOU MIGHT WISH TO SAY: YOU UNDERSTAND THAT THIS IS A QUESTION OF LEGISLATION THAT WOULD AFFECT THE TAX TREATMENT OF CANADIAN ADVERTISERS. NONE OF THE PARTIES HAS ASKED THE U.S. GOVERNMENT TO INVOLVE ITSELF IN THE MATTER AND WE HAVE NOT DONE SO, ALTHOUGH OF COURSE WE WATCH CLOSELY DEVELOPMENTS WHICH MIGHT ADVERSELY AFFECT U.S. BUSINESS INTERESTS.

P. QUEBEC'S CINEMA ACT. BACKGROUND: QUEBEC'S CINEMA ACT, EFFECTIVE JUNE 18, 1975, CONTAINS TWO PROVISIONS OF SPECIAL INTEREST TO THE U.S. FILM INDUSTRY: (A)

CINEMA OPERATORS MUST SHOW A CERTAIN QUOTA OF QUEBEC-MADE FILMS MADE EACH YEAR; (B) PRODUCERS OF SOME FILMS NOT ORIGINALLY MADE IN FRENCH MUST SUBMIT A DUBBED FRENCH VERSION WHEN APPLYING FOR DISTRIBUTION AUTHORIZATION. U.S. FILM MAKERS ROUTINELY MAKE FRENCH LANGUAGE VERSIONS OF THEIR FILMS IN PARIS. HOWEVER, THERE IS A POSSIBILITY (NOT YET CLARIFIED) THAT THE ACT MAY REQUIRE FILMS TO BE DUBBED IN QUEBEC, WHICH COULD CAUSE HARDSHIP. THE U.S. INDUSTRY HAS DISCUSSED ITS POTENTIAL PROBLEMS WITH THE DEPARTMENT.

IF ASKED ABOUT QUEBEC'S CINEMA ACT, YOU MIGHT WISH TO SAY: THE U.S. FILM INDUSTRY IS CONCERNED AND HAS TOLD US OF ITS DESIRE FOR FURTHER INFORMATION ABOUT THIS ACT. THE EXTENT TO WHICH OUR EXPORTS MAY BE AFFECTED IS NOT CLEAR SINCE COPIES OF THE ACT ARE NOT AVAILABLE AND THE REGULATIONS HAVE NOT BEEN ISSUED. THE U.S. INDUSTRY IS PARTICULARLY INTERESTED IN THE REQUIREMENT THAT SOME FILMS NOT MADE IN FRENCH BE TRANSLATED INTO FRENCH BEFORE THEY CAN BE SHOWN HERE. OUR FILM PRODUCERS ROUTINELY PRODUCE FRENCH VERSIONS OF THEIR FILMS IN PARIS AND WE TRUST THIS WILL BE CONSIDERED AS MEETING THE REQUIREMENTS OF THE CINEMA ACT.  
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